

An organization was formed in response to regulations issued by a state department of banking to promote proper control of consumer lending. It maintains a file of all open loans made by its member small loan companies and furnishes this information to its members in order to prevent a borrower from obtaining small loans in excess of a specified sum at any one time. Held, this organization may qualify for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization of licensed small loan companies formed and operated as described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a voluntary unincorporated association of small loan companies licensed by a state. It was formed in response to regulations issued by a state department of banking in the interest of promoting proper control of consumer lending. The regulations recommended that no borrower should become liable to any two or more licensed small loan companies for over a specified sum and urged the exchange of applicants' names between such companies. The organization's purposes are to promote, protect, and maintain the best interests of the public and licensed financial agencies through the interchange of information, so as to eliminate the possibility of any one borrower having more than a specified sum in small loans outstanding at any one time.

The organization maintains a file of all open loans made by its members and furnishes this information to its members in order to prevent a borrower from obtaining more than a specified sum in small loans. Members agree to clear the names of all applicants with the organization and are not permitted to make loans contrary to the state department of banking recommendations. The organization charges no fees for its services; its operating costs are defrayed by dues paid by its members. Membership in the organization is open to any person, firm, or corporation engaged in the business of making small loans not exceeding a specific sum and licensed by the state department of banking to conduct such business.

Section 501(c)(6) of the Code provides for the exemption of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board or trade. Thus, its activities should be directed to the improvement of

business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

It is true that furnishing this loan information benefits the members of the organization individually in that information regarding outstanding small loans is obtained concerning a proposed borrower. This, however, is only one source of information necessary to gauge a borrower's credit and must be utilized by a member in all cases as a condition of membership and regardless of its value for credit purposes. This type of service is to be distinguished from the conduct of a credit reporting business as considered in *United States v. Oklahoma City Retailers Association*, 331 F.2d 328 (1964). Hence, benefits to individual members are merely incidental to the principal purpose of the organization.

In order to cooperate with the state department of banking, small loan companies must have some orderly way of checking on loan applicants to ascertain whether they have other small loans outstanding. In meeting this need the organization furthers the common business interest of the particular line of business by protecting its membership as a whole from public criticism. In addition, it provides an important social service for the community by limiting the credit which its members may extend to that class of borrowers for whose benefit and protection the small loan laws of the state were enacted. Thus, borrowers are protected from becoming indebted beyond their capability to repay. All of these results improve conditions in the line of business served.

The operation is not a regular business of a kind ordinarily carried on for profit. Under the circumstances of this case, any resultant particular services for individual persons are incidental to the purpose of benefiting the industry.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(6) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.